USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 6/11/2008

GAIN Report Number: CA8040

Canada

Agricultural Situation

China & Mexico Challenge U.S. Exports in Canadian Horticultural Markets

2008

Approved by:
Lisa Anderson
U.S. Embassy

Prepared by:
George Myles

Report Highlights:
Increased competition from global suppliers presents challenges for U.S. food exporters to Canada. In recent years, other foreign suppliers, notably China and Mexico, have increased their agricultural exports to Canada especially in the fresh and processed horticultural products sector. This report provides a glimpse into increased Canadian agricultural imports from these sources by identifying some of the categories where competition is increasing for U.S. food exporters who may have formerly been unchallenged as dominant suppliers to the Canadian import market.

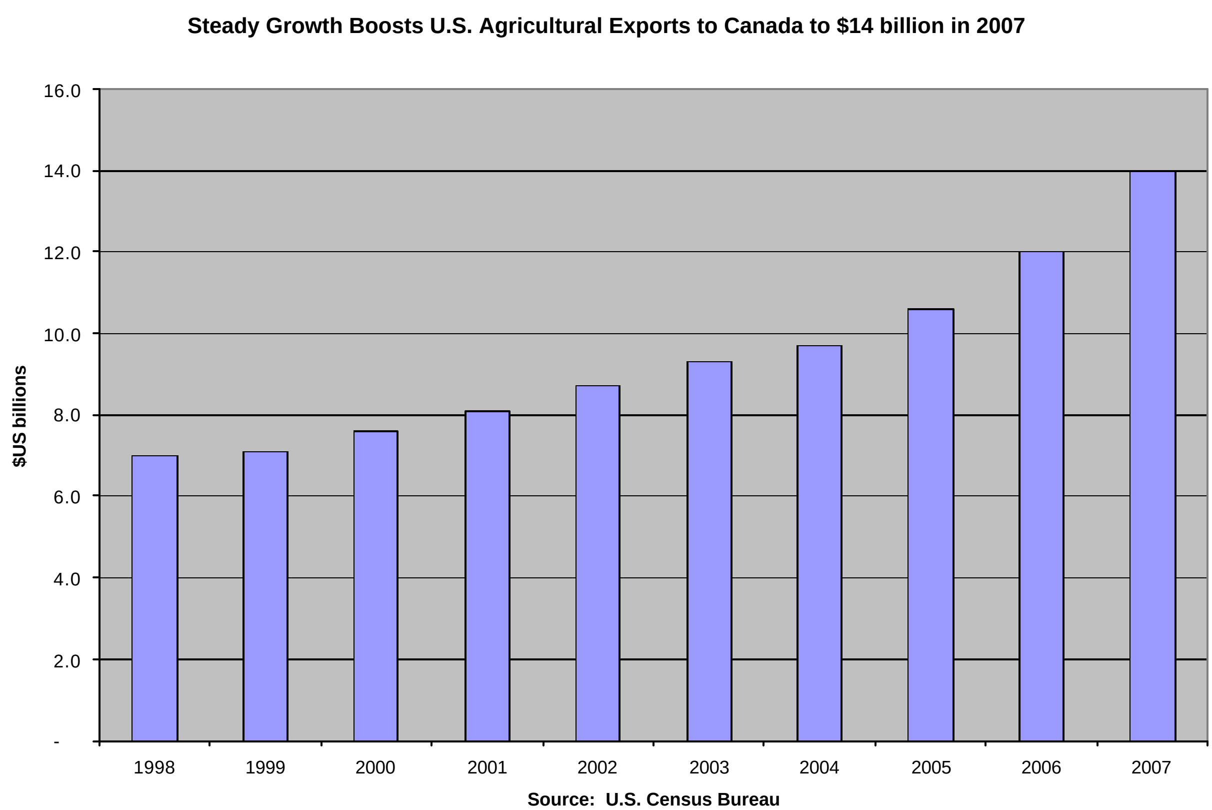
Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Ottawa [CA1]
[CA]

Table of Contents

Emerging Competition in the Canadian Food and Agriculture Import Market

Bilateral agricultural trade between the U.S. and Canada represents one of the world's most significant food trade partnerships. Food and agricultural product trade between the two countries totaled $29.2 billion during 2007. Canada is the top market for U.S. agricultural exports at 16% of total and one that has been growing steadily over the past 10 years. As Canadian import demand increased during the 1998-2007 period, there was solid growth in the Canadian food import market for U.S. food exports achieving an average annual growth rate of 7%. The U.S. market share peaked at about 65% in the early 2000s and currently, Canadian purchases of U.S. agricultural products account for about 60% of total Canadian agricultural imports. Changing diets linked to immigration patterns, broader, year 'round product offerings by Canadian grocery retailers, changes in ingredient sourcing by Canadian food manufacturing seeking cheaper inputs and increasing competition from global suppliers present challenges for U.S. food exporters to Canada. In recent years, other foreign suppliers, notably China and Mexico, have increased their agricultural exports to Canada especially in the fresh and processed horticultural products sector. This report is intended to provide a glimpse into increased Canadian agricultural imports from these sources by identifying some of the categories where competition is increasing for U.S. food exporters who may have formerly been essentially unchallenged as the dominant suppliers to the Canadian import market.

Chart 1. Steady Growth Boosts U.S. Agricultural Exports to Canada

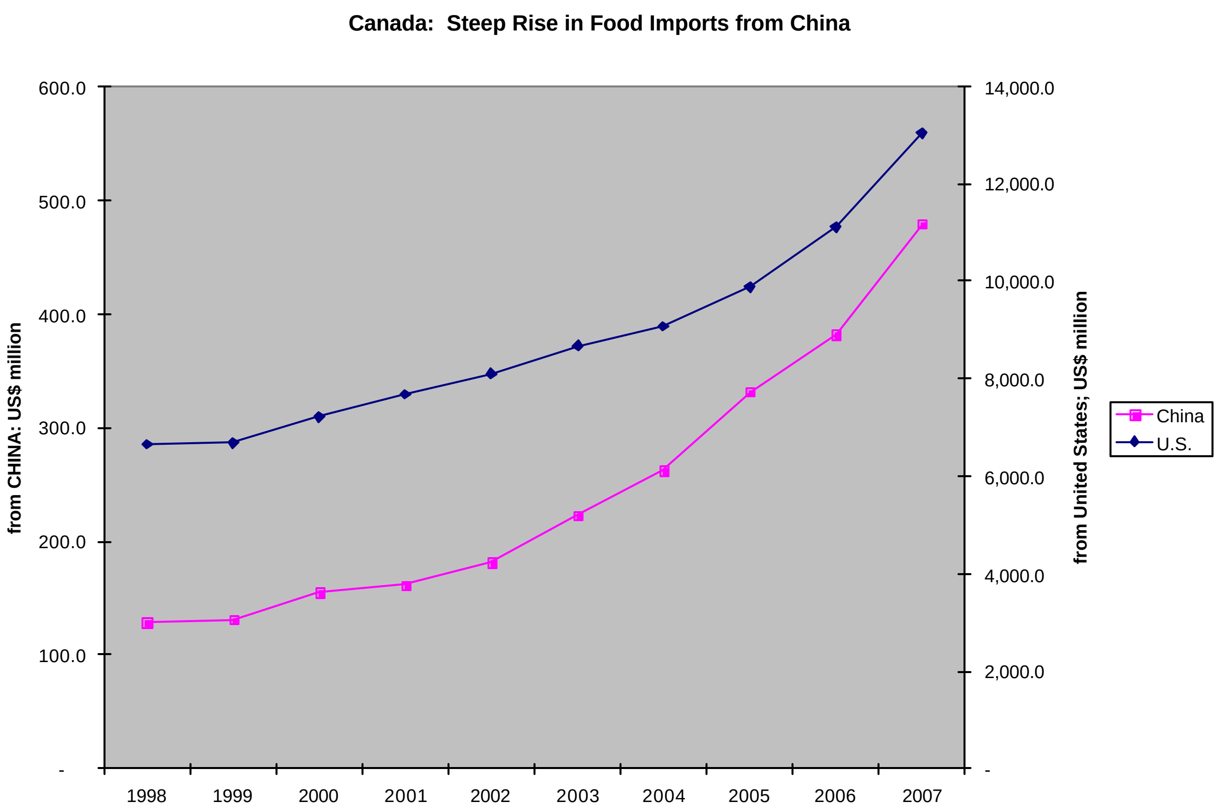


Canadian Food Imports from China Show Double the Growth Rate of U.S. Exports

Ten years ago, China ranked as the 12th most important food supplier to Canada, slightly ahead of Germany and Guatemala. By 2007, China ranked as the 6th most important supplier in the Canadian import market for food and agricultural products behind France (5th) and Brazil (4th). In the ten years ending 2007, Canadian imports of agricultural goods from China registered an annual average growth rate of 14%, a level unmatched by any other important food supplier to the Canadian market including the United States. More recently, the growth rate of China food sales to Canada has accelerated. The 5-year (2003-2007) average annual growth rate is 17%, again unsurpassed by any other supplier to the Canadian market.

In terms of penetration of the total Canadian market for food imports, China's exports do not seem too dramatic. During the ten years 1998-2007, U.S. agricultural exports to Canada doubled from $7.0 to $14.0 billion. Meanwhile, in value terms, Canadian imports of food and agricultural products from China rose from $129 million in 1998 to $479 million in 2007. Although seemingly modest, with China's share of total Canadian food imports rising from 1.2% to only 2.2% over the period, the value of Canadian food imports from China were nearly four times greater in 2007 than they were in 1998 and they were concentrated in certain commodity sectors, namely fresh vegetables, processed horticultural products, edible fruits and nuts, baking related categories, and teas. The chart below illustrates the rapid rise in Canadian food imports from China.

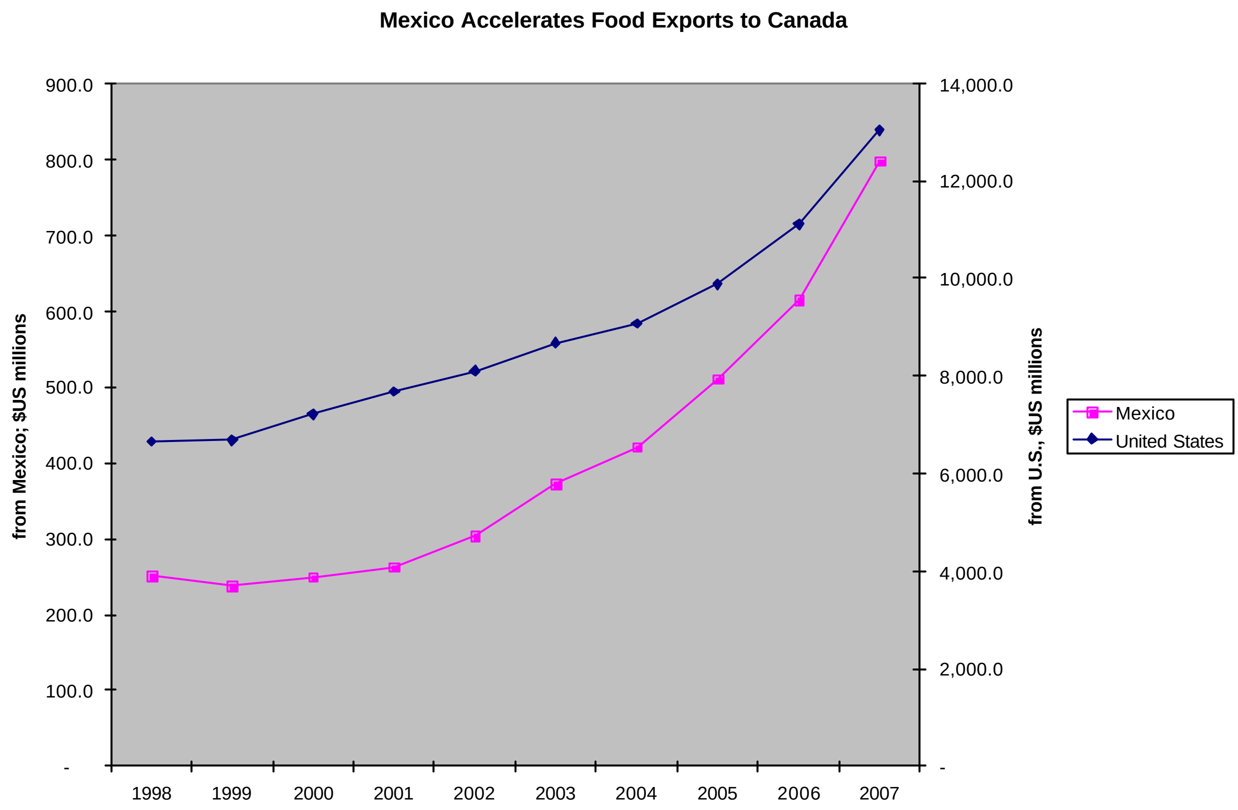
Chart 2. Steep Rise in Food Imports from China



Mexico, an Important Competitor

After the United States, Mexico is currently the No. 2 supplier of Canadian imports of food and agricultural products. Food imports from Mexico during 2007 reached $798 million. After China, Mexico showed the second largest average annual growth rate of food exports into the Canadian market. Mexico's 10 year average annual growth rate in that market was 12% while the 5 year average annual growth rate was 16%, only slightly behind China's performance. The value of Canadian food imports from Mexico was nearly three times greater in 2007 than it was in 1998. Under the NAFTA, most Canadian tariffs on Mexican food products were eliminated by 2003. Fresh fruits and vegetables account for more than half of Mexican agricultural exports to Canada. Over the ten year period 1998-2007, Mexican suppliers increased Canadian import market penetration for fresh vegetables; tomatoes, peppers, squash, asparagus, avocados, cabbage and onions, and for fruit; strawberries, other berries, grapes, and mangoes. Mexican beer sales to Canada in 2007 reached more than $117 million and chewing gum and other processed food exports also increased.

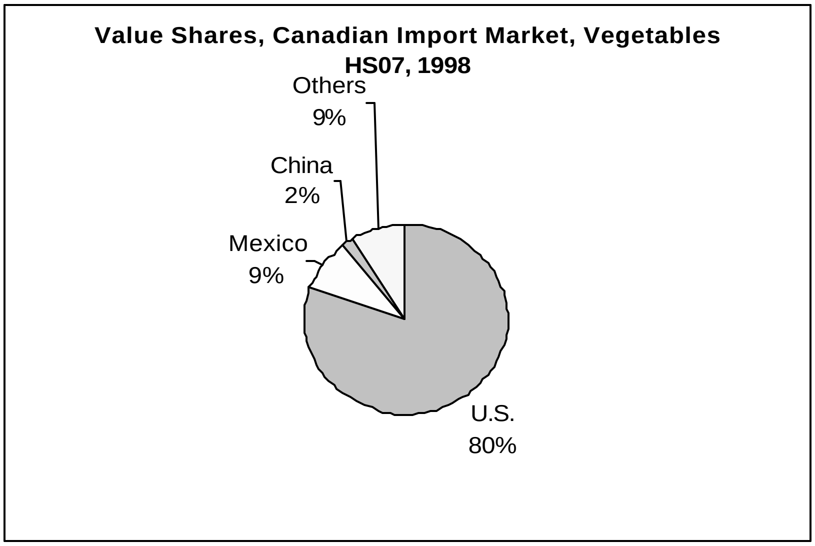
Chart 3. Mexico Accelerates Food Exports to Canada

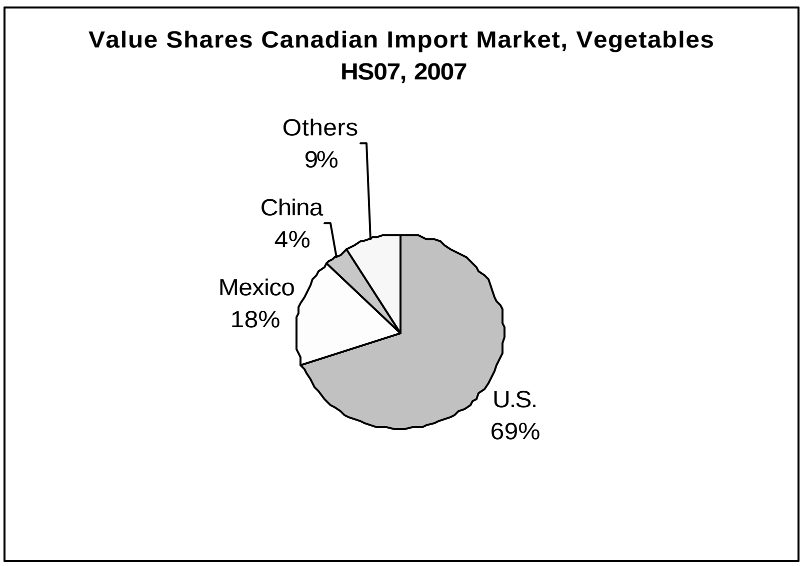


Canadian Vegetable Imports; Market Shares by Supplier

(HS07; Edible Vegetables, Certain Roots and Tubers)

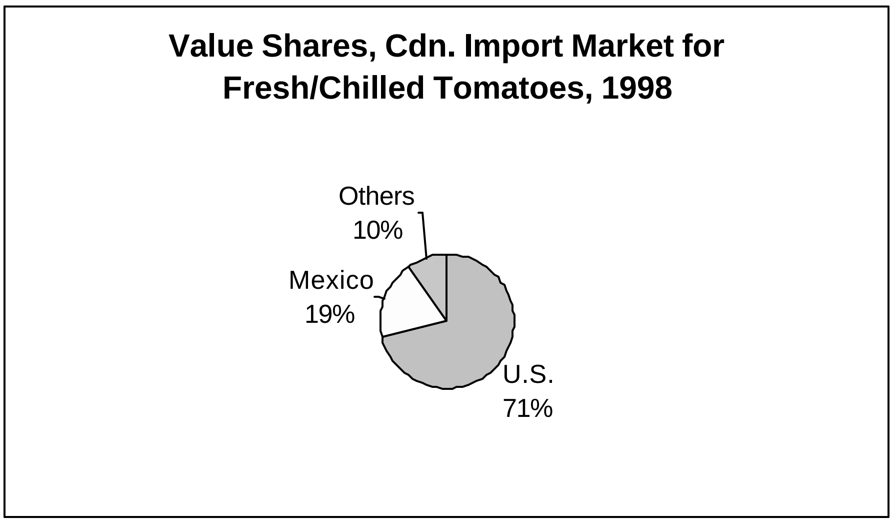
Total Canadian imports of vegetables (HS07) exceeded $2.0 billion for the first time in 2007. Imports from the United States rose to $1.4 billion in 2007 registering an average annual growth rate of 6% over the past ten years. On the other hand, Canadian imports in the category from Mexico and China during 2007 increased to $355 million and $80 million respectively and the average annual growth rates for those suppliers during 1998-2007 were 15% and 17% respectively. As shown below, the U.S. share of the vegetable import category fell to 69% in 2007 from 80% a decade earlier due solely to increased competition from Mexico and China.

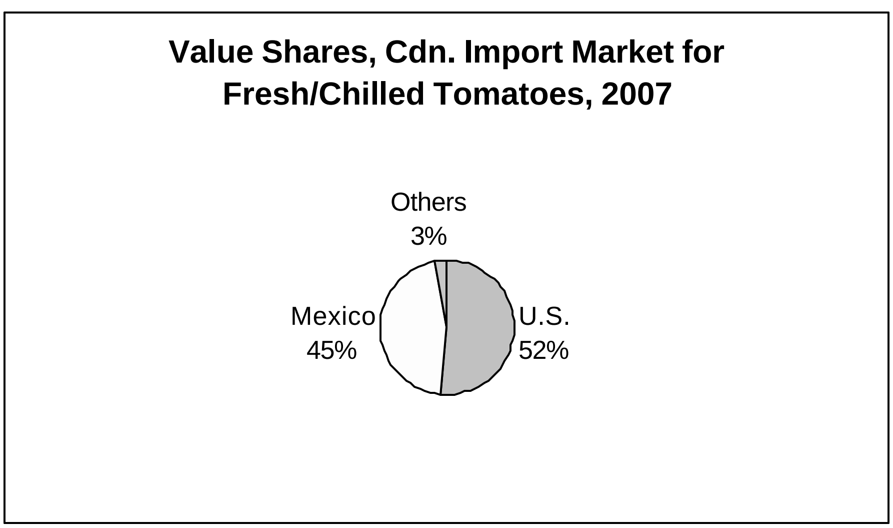




Mexican Fresh Tomatoes; Challenging U.S. Market Share

The value of the Canadian import market for fresh or chilled tomatoes reached $265 million during 2007 and showed an average annual growth rate of 10% over the past ten years. In 1998, the United States was the dominant fresh tomato supplier to Canada accounting for 71% of the Canadian import market in the category. The value of U.S. fresh tomato exports to Canada increased from $96.4 million in 1998 to $136.8 million during 2007. However, according to official Canadian import data, the value of Mexican exports of fresh tomatoes to Canada registered almost a five fold increase in the ten years ending 2007 and reached $120.1 million. The pace of competition from Mexican fresh tomatoes in the Canadian market has been accelerating. Over the past five years (2003-2007), the average annual growth rate in the value of Mexican fresh tomato exports to Canada is 21% compared to a 4% average annual growth rate in the value of U.S. fresh tomato exports to Canada.

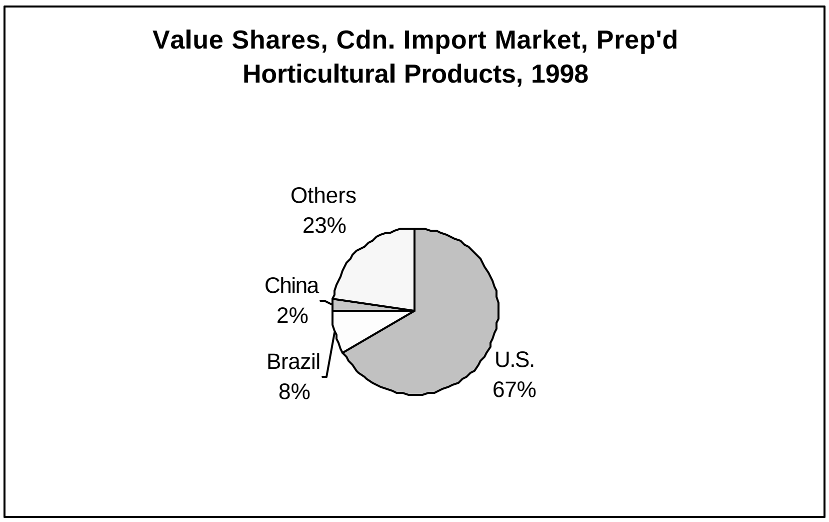


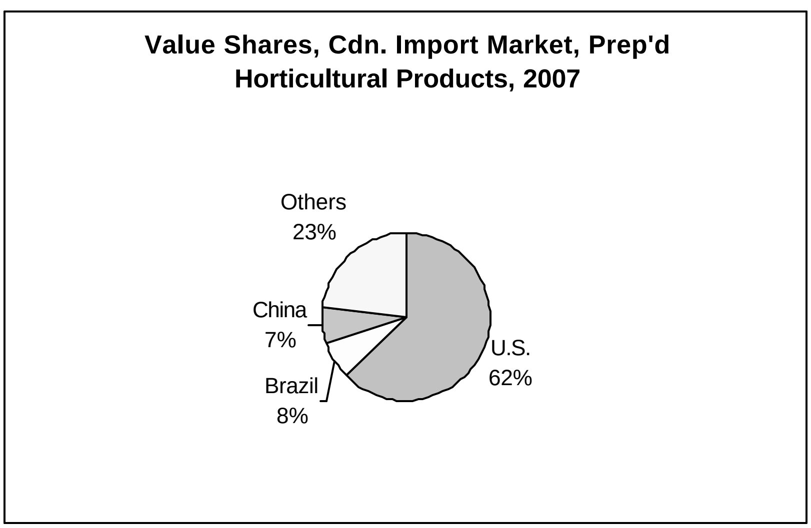


Canadian Prepared Horticultural Imports; China Squeezes U.S. Market Share

(HS20; Preparations of Vegetables, Fruits, Nuts, etc.)

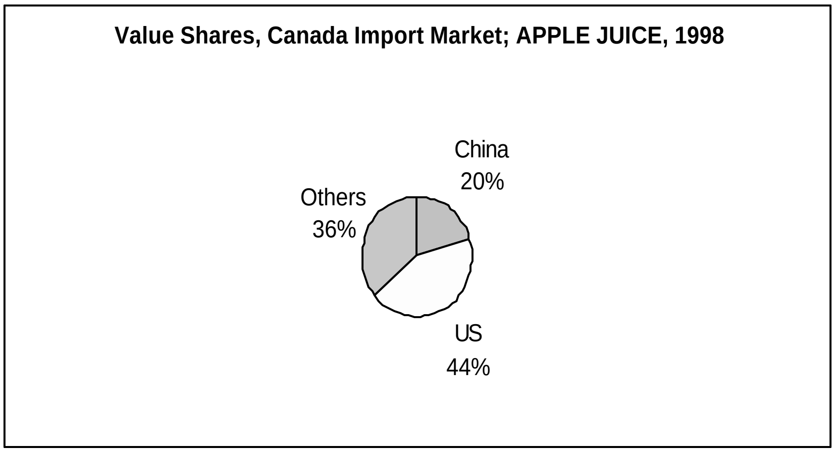
Total Canadian imports of prepared horticultural products from China in 2007 totaled $104.4 million, more than six times their value ten years earlier ($17.2 million). The average annual growth rate from 1998 to 2007 was 20%. Meanwhile, U.S. exports in the category grew importantly over the ten years from $532 million $939 million, but increased Canadian imports from China lowered U.S. market share to 62% during 2007 from 67% in 1998. As shown below, Brazil and other suppliers maintained their respective market shares, meaning that all of China's increased market share in the category came at the expense of U.S. exports. Most competition for U.S. exporters in the category came from increased Canadian imports from China of fruit juices (mostly apple), canned fruits, and canned mushrooms.

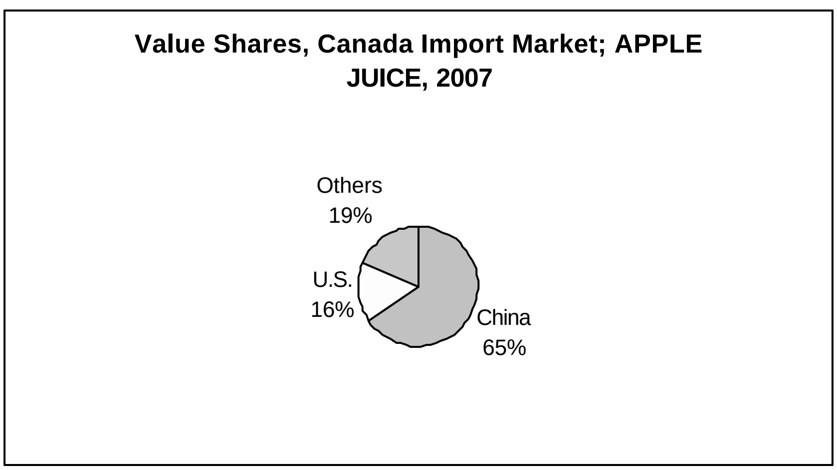




Subsection of HS20; China Dominates Imported Apple Juice Market

Similar to the situation in the U.S. domestic fruit juice market, China has dominated the Canadian import market for apple juice over the past decade. As shown below, China's share of total Canadian apple juice imports grew to almost two-thirds during 2007 compared to a 20% market share ten years ago. China's market gain came at the expense of both U.S. apple and other foreign suppliers to the Canadian juice market. The value of Canadian imports of apple juice from China exceeded $34 million in 2007 compared to $4.2 million in 1998. The value of U.S. exports of apple juice to Canada over the same period slipped to $8.0 million from $9.4 million.

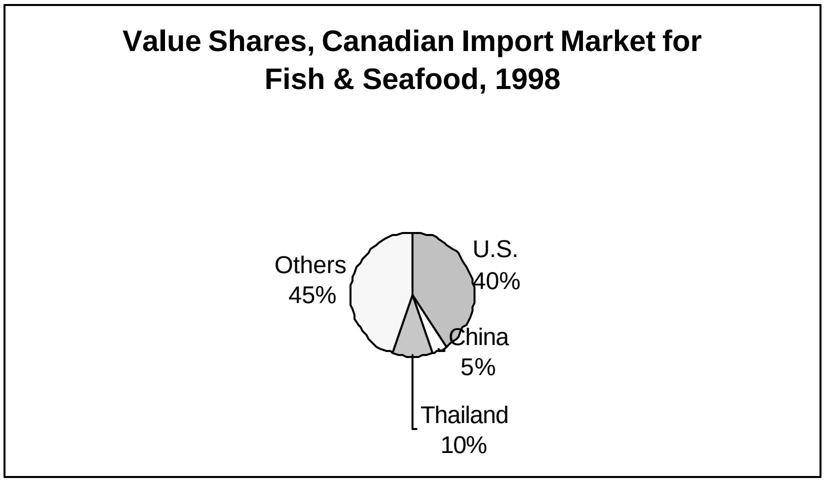


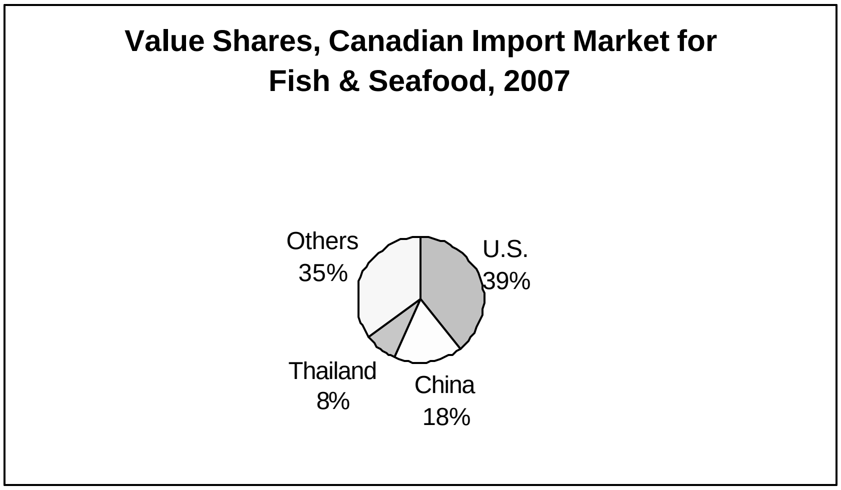


For more information concerning the rising profile of China in global fruit and vegetable markets, see the report by the Economic Research Service, USDA, China's Rising Fruit and Vegetable Exports Challenge U.S. Industries.

Fish and Seafood

China's emergence as a dominant fish and seafood exporter to Canada is nothing short of dramatic. In 1998, Canadian imports of fish and seafood from China reached $42 million, the sixth largest supplier, accounting for about 5% of total Canadian edible marine imports. By 2007, exports to Canada increased to $261 million, or 18% of the import market, vaulting China to the number two supplier of Canadian imported fish and seafood behind the United States. During this time, however, the U.S. share of the Canadian import market for fish and seafood remained relatively steady at about 40%. According to Canadian import data, imports from the U.S. in 2007 reached $575 million out of total fish and seafood imports of $1.5 billion. The seafood exporting nations to Canada most affected by China's penetration into the Canadian market have been Russia, Norway, and Iceland. One of the factors behind China's increased fish and seafood exports to Canada is China's emergence as an important player in the seafood processing industry. According to a Canadian government report on the seafood industry, some Canadian fish and seafood products are being processed in China and re-exported to other Asian high-value markets and in some instances, possibly even back to Canada.





Will China & Mexico Increase Ag Exports to Canada or Will Exports Slow?

What lies ahead for Chinese food exports to Canada? Will low Chinese labor costs continue to result in low production costs thereby increasing export prospects? Whatever the outcome, China faces its own challenges with regard to expanding food sales to Canada. Some of the factors that could constrain future Chinese food and agricultural exports to Canada include: 1) Canadian consumer confidence. Interest among Canadian consumers regarding food origin is heightened following the 2007 pet food ingredient incident of Canadian based Menu Foods and contaminated ingredients imported from China. Canadian concerns about the quality and safety of imported products and accurate product labeling as to ingredient origin has resulted in the Canadian government recently announcing its intention to modernize the guidelines that define the use of the terms "Product of Canada" and "Made in Canada" on food labels and in advertising (see CA8034); 2) Energy costs related to shipping. High fuel costs could increase shipping costs making food from China less competitive; 3) Domestic factors in China. Rising incomes and increased domestic demand in China could divert exportable supplies; 4) Value of the Yuan. Any reevaluation of the Yuan could make Chinese agricultural exports to Canada more expensive.

Since NAFTA came into force (1994), Mexico has benefited from improved trade with Canada. In recent years, Canadian imports of Mexican agricultural products grew at a slightly faster pace that imports of non-agricultural products from Mexico. Canadian consumer demand is expected to remain high for Mexican offerings of cherry tomatoes, tomatoes on the vine, mangoes and out-of-season fruits and vegetables. In February 2003, Canada and Mexico agreed to a Memorandum of Understanding (MOU) to establish a Mexico-Canada Consultative Committee on Agriculture (CCA) to provide a high-level forum for bilateral discussions on agricultural and trade issues. Adding to the confidence of Canadian wholesalers who buy Mexican products, the Fruit and Vegetable Dispute Resolution Corporation (DRC) was established in 1999 pursuant to Article 707 of the North American Free Trade Agreement (NAFTA) which provided for the creation of a private commercial dispute resolution organization for agricultural goods. The DRC is a private, non-profit organization of produce and transportation companies from the three NAFTA countries. It is the result of efforts by the North American produce industry and the governments from Canada, Mexico and the United States to create such an organization for fresh fruit and vegetable trade. The DRC was designed to build on existing services in the U.S. and fill a gap for international and domestic transactions in Canada and Mexico.

Note 1: This report, CA8040, is a FAS post report intended to provide timely information and analysis to U.S. food exporters, U.S. commodity groups and organizations and other interested parties. It is not an official USDA report.

Note 2: Other than Chart 1, which is based on U.S. Census Bureau data, the trade data in this report is based on official Canadian import data released by Statistics Canada and electronically accessed through World Trade Atlas.